

Washington State Auditor's Office
Financial Statements Audit Report

City of Tumwater
Thurston County

Audit Period
January 1, 2004 through December 31, 2004

Report No. 70050

Issue Date
January 27, 2006



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

January 27, 2006

Mayor and City Council
City of Tumwater
Tumwater, Washington

Report on Financial Statements

Please find attached our report on the City of Tumwater's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

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Thurston County
January 1, 2004 through December 31, 2004**

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**City of Tumwater
Thurston County
January 1, 2004 through December 31, 2004**

Mayor and City Council
City of Tumwater
Tumwater, Washington

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tumwater, Thurston County, Washington, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 30, 2005. The City has not presented the management's discussion and analysis information that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information and use of management and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 30, 2005

Independent Auditor's Report on Financial Statements

City of Tumwater Thurston County January 1, 2004 through December 31, 2004

Mayor and City Council
City of Tumwater
Tumwater, Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tumwater, Thurston County, Washington, as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed on page 5. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tumwater, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The City has not presented the management's discussion and analysis information that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 35 through 37 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, cursive script.

BRIAN SONNTAG, CGFM
STATE AUDITOR

December 30, 2005

Financial Section

**City of Tumwater
Thurston County
January 1, 2004 through December 31, 2004**

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CITY OF TUMWATER

Statement of Net Assets - Entity-Wide

December 31, 2004

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash & Cash Equivalents	\$ 6,382,620	\$ 5,369,920	\$ 11,752,540
Investments (Market Value)	9,246,282	7,498,769	16,745,051
Cash With Trustee	2,669	-	2,669
<u>Receivables</u>			
Taxes	408,428	-	408,428
Accounts	357,544	557,602	915,146
Interest	65,905	55,378	121,283
Interfund Loan Receivable	-	741,101	741,101
Due From Other Funds	-	745	745
Due From Other Governments	262,261	-	262,261
Inventories	21,346	132,981	154,327
<u>Capital Assets (Note 1-D-6):</u>			
Joint Venture, Land, and Construction in Progress	5,337,366	3,940,739	9,278,105
Other Capital Assets, Net of Depreciation	13,301,263	31,700,826	45,002,089
<u>Restricted Assets</u>			
Cash & Equivalents	-	198,117	198,117
Investments (Market Value)	-	279,889	279,889
Deferred Charges	81,811	450,222	532,033
TOTAL ASSETS	\$ 35,467,495	\$ 50,926,289	\$ 86,393,784
LIABILITIES			
Vouchers Payable	\$ 293,084	\$ 92,494	\$ 385,578
Due To Other Funds	-	-	-
Interfund Loans Payable	-	741,101	741,101
Due to Other Governments	-	340,880	340,880
Matured Interest Payable	14,732	95,395	110,127
Compensated Absences Liability	673,230	116,256	789,486
Deposits Payable	2,669	-	2,669
<u>Long-Term Liabilities (Note 1-D-9)</u>			
Due Within One Year	635,000	536,952	1,171,952
Due in More Than One Year, Net of Premiums/Discounts	6,719,903	9,514,524	16,234,427
TOTAL LIABILITIES	\$ 8,338,618	\$ 11,437,602	\$ 19,776,220
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	\$ 18,185,007	\$ 26,040,312	\$ 44,225,319
<u>Restricted for:</u>			
Capital Projects	6,714,405	-	6,714,405
Debt Service	1,364,694	478,006	1,842,700
Other Purposes	2,000	-	2,000
Unrestricted	862,771	12,970,369	13,833,140
TOTAL NET ASSETS	\$ 27,128,877	\$ 39,488,687	\$ 66,617,564

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Statement of Activities

For the Year Ended December 31, 2004

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Programs	Expenses	Charges for		Capital	Governmental	Business-Type	Total
		Fines, & Forfeitures	Operating Grants and Contributions				
Governmental Activities:							
General Government	\$ 3,281,494	\$ 228,016	\$ 141,707	\$ 736,029	\$ (2,175,742)	\$	(2,175,742)
Public Safety - Police	3,089,663	20,145	17,844	174,875	(2,876,799)		(2,876,799)
Public Safety - Fire	2,608,227	8,395	2,587	763,958	(1,833,287)		(1,833,287)
Public Works	1,126,460	-	179,250	257,067	(690,143)		(690,143)
Economic Environment	1,353,504	635,526	10,000	3,303,288	2,595,309		2,595,309
Mental & Physical Health	35,241	-	-	-	(35,241)		(35,241)
Culture & History	324,298	2,354	-	-	(321,943)		(321,943)
Parks & Recreations	905,640	173,192	32,612	-	(699,836)		(699,836)
Interest on Long-Term Debt	197,974				(197,974)		(197,974)
Total Governmental Activities (See Note 1)	\$ 12,922,500	\$ 1,067,628	\$ 384,000	\$ 5,235,217	\$ (6,235,656)	\$ -	\$ (6,235,656)
Business-Type Activities:							
Water	\$ 2,470,764	\$ 2,638,525	\$ 168,662	\$ 1,619,951	\$	\$ 1,956,374	\$ 1,956,374
Sewer	3,504,950	3,349,113	1,602	2,107,339		1,953,103	1,953,103
Storm Drain	731,476	773,550	(2,655)	221,639		261,058	261,058
Golf Course	1,449,617	1,014,811	47,364	-		(387,442)	(387,442)
Total Business-Type Activities	\$ 8,156,807	\$ 7,775,999	\$ 214,973	\$ 3,948,928	\$ -	\$ 3,783,093	\$ 3,783,093
Total Governmental and Business-Type Activities	\$ 21,079,308	\$ 8,843,627	\$ 598,973	\$ 9,184,145			
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes					\$ 2,826,038	\$ -	\$ 2,826,038
Property Taxes, Levied for Debt Service					832,199	-	832,199
Business and Franchise Licenses and Taxes					8,016,083	-	8,016,083
Unrestricted Investment Earnings					189,946	189,727	379,673
Miscellaneous					3,000	-	3,000
Transfers					(83,839)	297,991	214,152
Total General Revenues and Transfers					\$ 11,783,427	\$ 487,718	\$ 12,271,145
Changes in Net Assets					\$ 5,547,771	\$ 4,270,811	\$ 9,818,582
Net Assets - Beginning					21,380,105	35,217,876	56,597,981
Change in Accounting Principle (See Note 4 - 12)					201,001	-	201,001
Net Assets - Ending					\$ 27,128,877	\$ 39,488,687	\$ 66,617,564

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Balance Sheet - Governmental Funds

December 31, 2004

	MAJOR GOVERNMENTAL FUNDS			OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEVELOPMENT FEES FUND	CAPITAL PROJECTS FUND		
ASSETS					
Cash & Cash Equivalents	\$ 783,297	\$ 2,800,851	\$ 1,488,177	\$ 728,753	\$ 5,801,078
Investments (Market Value)	1,555,698	3,913,554	2,079,390	885,067	8,433,709
Cash With Trustee	2,669			-	2,669
Receivables					
Taxes	83,592			22,658	106,250
Accounts	292			-	292
Due From Other Governments	24,774		234,711	2,776	262,261
TOTAL ASSETS	\$ 2,450,322	\$ 6,714,405	\$ 3,802,278	\$ 1,639,254	\$ 14,606,259
LIABILITIES					
Vouchers Payable	\$ 216,879	\$ -	\$ 41,919	\$ 13,848	\$ 272,646
Deposits Payable	2,669			-	2,669
Deferred Revenues	83,592			22,658	106,250
TOTAL LIABILITIES	\$ 303,140	\$ -	\$ 41,919	\$ 36,506	\$ 381,565
FUND BALANCES					
Fund Balance:					
Reserved	\$ 2,000	\$ -	\$ -	\$ 1,364,694	\$ 1,366,694
Designated Unreserved		6,714,405		-	6,714,405
Undesignated Unreserved	2,145,182		3,760,359	238,054	6,143,595
TOTAL FUND BALANCE	\$ 2,147,182	\$ 6,714,405	\$ 3,760,359	\$ 1,602,748	\$ 14,224,694
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,450,322	\$ 6,714,405	\$ 3,802,278	\$ 1,639,254	\$ 14,606,259
Amounts reported for governmental activities in the Statement of Net Assets differ for the following reasons:					
TOTAL OF FUND BALANCES FOR ALL GOVERNMENTAL FUNDS (THIS STATEMENT),	\$			\$	14,224,694
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.				\$	16,801,551
Other assets are not available to pay for current-period expenditures and therefore are deferred in the funds.				\$	825,802
An internal service fund is used to charge for the use of heavy equipment, vehicles, and electronic equipment by the individual funds. Some of the assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets. The amounts are proportionate to the utilization of the internal service fund by the governmental funds compared to the use of all funds operated by the city.				\$	3,221,865
Liabilities, including bonds and other debt instruments plus interest, are not due and payable in the current period and therefore are not reported in the funds.				\$	(7,945,035)
NET ASSETS OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET ASSETS	\$			\$	27,128,877

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2004

	MAJOR GOVERNMENTAL FUNDS			OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL FUND	DEVELOPMENT FEES FUND	CAPITAL PROJECTS FUND		
REVENUES					
Taxes	\$	9,102,776 \$	- \$	1,478,191 \$	997,691 \$
Licenses & Permits		858,598			11,578,658
Intergovernmental		1,130,192		1,000	858,598
Charges for Services		1,543,978	2,601,123	255,482	1,387,674
Fines and Penalties		181,920		2,500	4,448,555
Grants		153,995	56,696	37,494	2,500
Miscellaneous				42,015	180,797
					290,200
TOTAL REVENUES	\$	12,970,768 \$	2,657,819 \$	1,772,167 \$	1,043,769 \$
					18,444,523
EXPENDITURES					
Current:					
General Government	\$	3,171,741 \$	- \$	- \$	3,171,741
Security of Persons & Property		5,541,651		328	5,541,979
Physical Environment		196,872		-	196,872
Transportation		1,450,165		-	1,450,165
Public Works		1,353,571		-	1,353,571
Emergency Management		33,741		-	33,741
Mental & Physical Health				238,605	1,034,667
Culture & Recreation				5,528	975,024
Capital Outlay		796,062			1,168,227
Debt Service:					196,469
Principal Retirement					
Interest & Fiscal Charges					
TOTAL EXPENDITURES	\$	12,032,823 \$	- \$	965,496 \$	1,065,177 \$
					14,607,496
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$	937,945 \$	2,657,819 \$	802,671 \$	(561,408) \$
					3,837,027
OTHER FINANCING SOURCES (USES)	\$				
Non-Capital Related Debt Issued		199,382	- \$	73,313 \$	73,313
Transfers In		(945,975)	(112,705)	187,382	1,468,444
Transfers Out				(486,048)	(1,542,728)
TOTAL OTHER FINANCING SOURCES (USES)	\$	(744,593) \$	(112,705) \$	(225,353) \$	1,079,680 \$
					(2,971)
NET CHANGE IN FUND BALANCES	\$	193,352 \$	2,545,114 \$	577,318 \$	518,272 \$
					3,834,056
PLUS: FUND BALANCES - BEGINNING	\$	1,953,830 \$	4,169,291 \$	3,183,041 \$	1,084,476 \$
					10,390,638
FUND BALANCES - ENDING	\$	2,147,182 \$	6,714,405 \$	3,760,359 \$	1,602,748 \$
					14,224,694
Amounts reported for governmental activities in the Statement of Activities differ for the following reasons:					
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (THIS STATEMENT)	\$				3,834,056
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.					450,622
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This primarily consists of accrued property taxes and retail sales taxes.					83,861
The net effect of miscellaneous transactions involving capital assets (i.e., sales, trades, donations, and changes in net equity in a joint venture whose change is reported as miscellaneous General Government income) is to increase net assets.					3,002
Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal decreases current financial resources, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceed repayments in the current period.					1,094,914
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These expenses primarily consist of accrued interest and deferred costs of debt.					(43,463)
An internal service fund is used to charge costs for the use of heavy equipment, vehicles, and electronic equipment to individual funds. A portion of the net revenue of the internal service fund is included with governmental activities in the Statement of Activities. The amount is proportionate to the utilization of the internal service fund by the governmental funds compared to the use of all funds operated by the city.					124,779
CHANGE IN NET ASSETS FOR GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	\$				5,547,771

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Statement of Net Assets - Proprietary Funds

December 31, 2004

	MAJOR ENTERPRISE FUNDS *		TOTAL	INTERNAL
	UTILITIES	GOLF COURSE	ENTERPRISE	SERVICE
	FUND	FUND	FUNDS	FUNDS
ASSETS				
CURRENT ASSETS				
Cash & Cash Equivalents	\$ 5,220,933	\$ 12,233	\$ 5,233,166	\$ 718,296
Investments (Market Value)	7,307,687		7,307,687	1,003,655
<u>Receivables</u>				
Accounts	557,602		557,602	
Interest	54,018		54,018	7,144
Interfund Loan Receivable	741,101		741,101	
Due From Other Governments	745		745	
NON-CURRENT ASSETS				
Inventories	34,590	93,372	127,962	26,363
Fixed Assets, Net	31,486,115	3,723,447	35,209,562	2,269,082
<u>Restricted Assets</u>				
Cash & Equivalents	198,117		198,117	
Investments (Market Value)	279,889		279,889	
Deferred Charges	291,817	158,405	450,222	
TOTAL ASSETS	\$ 46,172,614	\$ 3,987,457	\$ 50,160,071	\$ 4,024,540
LIABILITIES				
CURRENT LIABILITIES				
Vouchers Payable	\$ 76,455	\$ 11,233	\$ 87,688	\$ 25,244
Interfund Loans Payable	-	741,101	741,101	
Due to other Governments	340,880	-	340,880	
Matured Interest Payable	40,134	55,261	95,395	
Compensated Absences Payable	86,862	25,627	112,489	19,786
Current Portion of Long Term Debt	504,672	32,280	536,952	
NON-CURRENT LIABILITIES				
Long Term Liabilities (Net of Ammortized Discount)	4,893,498	4,621,025	9,514,524	
TOTAL LIABILITIES	\$ 5,942,501	\$ 5,486,527	\$ 11,429,029	\$ 45,030
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	\$ 26,379,762	\$ (771,453)	\$ 25,608,309	\$ 2,269,082
Restricted for Debt Service	478,006		478,006	
Unrestricted	13,372,344	(727,618)	12,644,727	1,710,428
TOTAL NET ASSETS	\$ 40,230,113	\$ (1,499,071)	\$ 38,731,042	\$ 3,979,510

* ALL ENTERPRISE FUNDS ARE MAJOR FUNDS

The amount reported as the total net assets for business-type activities in the Statement of Net Assets differs for the following reasons:

TOTAL NET ASSETS - ALL ENTERPRISE FUNDS (THIS STATEMENT) \$ 38,731,042

An internal service fund is used to charge for the use of heavy equipment, vehicles, and electronic equipment by the individual funds. Some of the assets and liabilities of the internal service fund are included in the business-type activities in the Statement of Net Assets. The amounts are proportionate to the utilization of the internal service fund by the enterprise funds compared to the use of all funds operated by the city.

\$757,645

NET ASSETS OF BUSINESS-TYPE ACTIVITIES - STATEMENT OF NET ASSETS **\$ 39,488,687**

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Statement of Revenue, Expenses, and Changes in Fund Net Assets - Proprietary Funds For the Year Ended December 31, 2004

	MAJOR ENTERPRISE FUNDS *		TOTAL	INTERNAL
	UTILITIES	GOLF COURSE	ENTERPRISE	SERVICE
	FUND	FUND	FUNDS	FUNDS
OPERATING REVENUES				
Charges for Services	\$ 6,760,676	\$ 1,014,811	\$ 7,775,487	\$ 1,219,917
Other Operating Revenue	180,486	47,364	227,850	79,309
TOTAL OPERATING REVENUE	\$ 6,941,162	\$ 1,062,175	\$ 8,003,337	\$ 1,299,226
OPERATING EXPENSES				
Operations & Maintenance	\$ 4,302,757	\$ 878,293	\$ 5,181,050	\$ 391,378
Administration Overhead	1,141,161	82,132	1,223,293	423,204
Taxes	219,495	4,508	224,003	-
Depreciation & Ammortization	883,419	244,035	1,127,454	507,502
TOTAL OPERATING EXPENSES	\$ 6,546,832	\$ 1,208,968	\$ 7,755,800	\$ 1,322,084
OPERATING INCOME (LOSS)	\$ 394,330	\$ (146,793)	\$ 247,537	\$ (22,858)
NON-OPERATING REVENUE (EXPENSES)				
Interest Income	\$ 184,370	\$ -	\$ 184,370	\$ 28,131
Interest Expense	(201,523)	(241,247)	(442,770)	-
TOTAL NON-OPERATING REVENUE (EXPENSES)	\$ (17,153)	\$ (241,247)	\$ (258,400)	\$ 28,131
INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	\$ 377,177	\$ (388,040)	\$ (10,863)	\$ 5,273
Capital Contributions	\$ 3,936,564	\$ -	\$ 3,936,564	\$ 145,008
Transfers In	-	319,610	319,610	-
Transfers Out	-	-	-	-
Current Period Net Income (Loss)	377,177	(388,040)	(10,863)	5,273
CHANGES IN NET ASSETS	\$ 4,313,741	\$ (68,430)	\$ 4,245,311	\$ 150,281
TOTAL NET ASSETS - JANUARY 1	\$ 35,916,372	\$ (1,430,641)	\$ 34,485,731	\$ 3,829,231
TOTAL NET ASSETS - DECEMBER 31	\$ 40,230,113	\$ (1,499,071)	\$ 38,731,042	\$ 3,979,512

* ALL ENTERPRISE FUNDS ARE MAJOR FUNDS

The amount reported as the change in net assets for business-type activities in the Statement of Activities differ for the following reasons:

CHANGE IN FUND NET ASSETS - ALL ENTERPRISE FUNDS (THIS STATEMENT) \$ 4,245,311

An internal service fund is used to charge costs for the use of heavy equipment, vehicles, and electronic equipment to individual funds. A portion of the net revenue of the internal service fund is included with business-type activities in the Statement of Activities. The amount is proportionate to the utilization of the internal service fund by the enterprise funds compared to the use of all funds operated by the city.

\$25,500

CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES - STATEMENT OF ACTIVITIES \$ 4,270,811

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Combined Statement of Cash Flows - All Proprietary Funds

For the Year Ended December 31, 2004

	UTILITIES FUND	GOLF COURSE FUND	TOTAL ENTERPRISE FUNDS	INTERNAL SERVICE FUND
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 6,779,067	\$ 1,014,810	\$ 7,793,877	\$ 1,259,716
Receipts from Other Operating Activities	1,438,637	47,364	1,486,001	501
Payments to Suppliers of Goods &/or Services	(4,315,154)	(464,182)	(4,779,336)	(422,234)
Payments to Employees	(1,304,447)	(474,865)	(1,779,312)	(330,579)
Payments for Quasi-External Operating Transactions	(780,038)	(55,282)	(835,320)	(88,759)
Payment of Taxes	(219,495)	(4,508)	(224,003)	-
Payments for Other Operating Activities	(270,584)	-	(270,584)	39,008
Net Cash Provided by Operating Activities	\$ 1,327,985	\$ 63,337	\$ 1,391,322	\$ 457,654
Cash Flows from Capital and Related Financing Activities:				
Payments for Capital Acquisitions	\$ (914,219)	\$ (2,142)	\$ (916,361)	\$ (363,270)
Payments to Employees for Capital Acquisitions	(197,864)	-	(197,864)	-
Proceeds of Interfund Loan	-	108,531	108,531	-
Issuance of Interfund Loan	(108,531)	-	(108,531)	-
Principal Repayment on Interfund Loan	-	(183,277)	(183,277)	-
Principal Repayment Received on Interfund Loan	183,277	-	183,277	-
Interest Paid on Interfund Loan	-	(11,304)	(11,304)	-
Interest Received on Interfund Loan	11,304	-	11,304	-
Principal Repayment on Public Work Trust Fund Loan	(208,390)	-	(208,390)	-
Interest Paid on Public Work Trust Fund Loan	(25,688)	-	(25,688)	-
Proceeds from Sale of Assets	-	-	-	30,582
Principal Repayment on Bond	(340,000)	-	(340,000)	-
Interest Paid on Bond	(133,176)	(219,610)	(352,786)	-
Principal Repayment on Capital Lease	-	(79,133)	(79,133)	-
Interest Payment on Capital Lease	-	(12,741)	(12,741)	-
Proceeds from Insurance Payments	-	-	-	11,160
Proceeds from Latecomer's Contractual	143,727	-	143,727	-
Payments for Latecomer's Contractual	(143,727)	-	(143,727)	-
Contributions in Aid of Construction	1,874,002	319,610	2,193,612	121,653
Interfund Eliminations	-	-	-	-
Net Cash Provided by Capital and Related Financing Activities	\$ 140,714	\$ (80,067)	\$ 60,647	\$ (199,874)
Cash Flows from Investing Activities:				
Receipts of Investment Interest	\$ 152,973	\$ -	\$ 152,973	\$ 18,307
Proceeds from Sale of Short-Term Investments	5,106,624	-	5,106,624	646,941
Payments for Short-Term Investments	(7,587,576)	-	(7,587,576)	(1,003,655)
Net Cash Provided by Investing Activities	\$ (2,327,980)	\$ -	\$ (2,327,980)	\$ (338,407)
Net Increase in Cash and Cash Equivalents	\$ (859,282)	\$ (16,730)	\$ (876,011)	\$ (80,627)
Cash and Cash Equivalents January 1	\$ 6,278,331	\$ 27,962	\$ 6,306,293	\$ 798,923
Cash and Cash Equivalents December 31	\$ 5,419,050	\$ 11,232	\$ 5,430,282	\$ 718,296
Reconciliation of Operating Income to				
Net Cash Provided by Operations				
Operating Income/(Loss) (a)	\$ 394,330	\$ (146,793)	\$ 247,537	\$ (22,858)
Non-Cash Adjustments to Reconcile Operating Income to				
Net Cash Provided by Operating Activities (see notes below):				
Depreciation/Amortization Expense	883,419	244,035	1,127,454	507,502
Change in Assets & Liabilities:				
Accounts Receivable	18,390	-	18,390	-
Due From Other Governments	3,400	-	3,400	-
Inventory	36,693	(20,229)	16,464	(4,142)
Vouchers Payable	(19,209)	(16,729)	(35,938)	(18,751)
LOTT Pass Thru Payable	25,979	-	25,979	-
LOTT Reserve Capacity	(8,423)	-	(8,423)	-
Accrued Annual Leave Liability	(5,688)	3,053	(2,635)	(4,097)
Due to Other Governments	(906)	-	(906)	-
Total Adjustments (b)	933,655	210,130	1,143,785	480,512
Net Cash Provided/Used by Operations (a)+(b)	\$ 1,327,985	\$ 63,337	\$ 1,391,322	\$ 457,654

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER

Statement of Fiduciary Net Assets

December 31, 2004

		<u>AGENCY FUNDS</u>
<u>ASSETS</u>		
Cash & Cash Equivalents	\$	246,342
Investments (Market Value)		10,577
TOTAL ASSETS	\$	256,919
<hr/>		
<u>LIABILITIES</u>		
Vouchers Payable	\$	7,853
Deposits Payable to Other Parties		249,063
TOTAL LIABILITIES	\$	256,916

The accompanying Notes are an integral part to this Financial Statement.

CITY OF TUMWATER, WASHINGTON

Notes to the Financial Statements

December 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Tumwater have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the nationally accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A - Reporting Entity

The City of Tumwater was incorporated on November 25, 1869 and operates under the laws of the State of Washington applicable to a Code City Mayor/Council, form of government. The City provides what are considered general governmental services authorized by state law, including public safety, highways and streets, parks and recreation, planning and zoning, permits and inspections, general administration, and water and sewer services.

B – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the city. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. The City's policy is to not allocate indirect costs to a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by an given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the funds financial statements.

C – Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using *the economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the city considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

Property taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The city reports the following major governmental fund:

- The *General Fund* is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *Development Fees Fund* is a special revenue fund that receives and disperses funds (i.e., transportation impact fees, park impact fees, fire impact fees) via interfund transfers for the specific development activities.
- The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *Capital Projects Fund* is the city's primary reporting fund for general government acquisition and development projects (i.e., government buildings, city parks) and transportation infrastructure development.

The city reports the following major proprietary funds:

- The *Utilities Fund* provides water, sewer, and storm drain services to most properties within the city and to some areas outside the city limits.
- The *Golf Course Fund* operates the Tumwater Valley Municipal Golf Course, a 7,200 yard 18-hole championship golf course with a pro-shop operated by the fund and restaurant space leased to a private party.

Additionally, the city reports the following fund type:

- An *Internal Service Fund* that accounts for heavy equipment and vehicle fleet management services as well as computer and communication equipment to the general government and enterprise funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The city has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activities has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the city's utility fund and various other functions of the city. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Fund enterprise fund, the Golf Course Fund, and the Equipment Rental and Reserve Fund internal service fund are charges to customers for sales and services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources, as they are needed.

D – Assets, Liabilities, and Net Assets or Equity

1 – Deposits and Investments (see Note 4 – 1-Deposits and Investments)

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds based on the amount available to invest at the end of the preceding month. The city's cash and cash equivalents are considered to be cash on hand and short-term investments with original maturities of three months or less from the date of acquisition.

The city is authorized by state law to purchase certificates of deposit issued by Washington State depositories that participate in the State of Washington Public Deposit Protection Commission Pool, U.S. Treasury and agency securities, state and local government obligations, banker's acceptance and repurchase agreements, and the State of Washington Investment Pool. In accordance with GASB Statement 31, all investments are restated at market value as determined by the market on the balance sheet date. The change in balance sheet value of investments caused by this method of reporting is recognized as realized income.

2 – Receivables and Payables

Taxes receivable consists of property taxes (see: Note 4 – 2-Property Taxes).

Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. Customer accounts receivable consists of amounts owed on municipal court fines and from utility customers for services provided.

3 – Amount Due To and From Other Funds and Governments, Interfund Loans

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund loans receivable/payable" or "advances to/from other funds." All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." (A separate schedule of interfund loans receivable and payable is furnished in Note 4 – 5-Interfund Receivables, Payables, Transfers.)

Items identified as "Due from Other Governments" represents grant funding accrued for expenditures or expenses incurred during the reporting period. Items identified as "Due to Other Governments" represents the amount owed by the Utility fund to a third party governmental agency for waste treatment.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

4 – Inventories

All inventories in proprietary funds are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than purchased. However, there are no inventories in governmental activities at this time.

5 – Restricted Assets and Liabilities

Restricted assets include those amounts reserved for revenue bond debt as stipulated in the covenants of the issuances.

6 – Capital Assets (see Note 4 – 3-Capital Assets)

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the reporting period there were no such projects funded by debt proceeds, therefore no capitalized interest to recognize.

Property, plant, and equipment of the city is depreciated using the straight line method with useful lives of 3 to 50 years depending on the type of asset.

Transportation infrastructure is reported in *Governmental Capital Assets Not Being Depreciated as Construction in Progress* until each project is completed. At that time it is identified as infrastructure assets in the appropriate classifications and depreciated over the useful life of the assets. The city is now reporting all additions to transportation infrastructure prospectively and has begun the process of identifying existing transportation infrastructure. The city's plan is to complete the process of retroactive reporting within the time allowed by the reporting requirements of GASB Statement 34.

7 – Compensated Absences

It is the city's policy to permit employees to accumulate earned but unused vacation and sick pay benefits.

Annual leave is accumulated monthly at annual rates ranging from 12 to 23 days depending on tenure and union agreements. Employees may accumulate up to a maximum of 240 to 360 hours inclusive of current year accruals according to union agreements and City ordinances. Vacation leave is payable upon resignation, retirement, or death, to all employees having completed six months of service up to a maximum of 240 hours. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds if they have matured.

The sick leave accrual rate for forty hour per week employees is eight hours per month. Twenty-four hour fire department shift employees are credited with one working day sick leave for each full month of employment. Some classes of employees are eligible for payment of sick leave at 25% of the hourly value upon retirement, voluntary termination, or layoff. Additionally, some employees may cash out a portion of sick leave each year at 25% of the hourly value based on criteria that recognizes minimal use of sick leave over a minimum of nine years of employment. Consequently, a liability for the potential cash-out is reported in all funds to the extent that it could be expended.

8 – Other Accrued Liabilities

The cost of goods or service purchased by all funds not paid by the report date are recognized and paid during the following month. The cost of services provided by the regional waste treatment facility during the reporting period and paid after the report date are recognized in the fund financial statement of the Utilities Fund and in the business-type activities in the government-wide reports.

9 – Long-term Debt (see Note 4 – 6-Debt)

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financial sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

10 – Deferred Revenues

This account includes amounts recognized as receivable but not as revenue in governmental funds at the fund reporting level because the revenue recognition criterion has not been met. The amount represents property taxes assessed and shown as a receivable but not available within 30 days from the report date (see Note 4 – 2-Property Taxes).

11 – Fund Equity

In the fund financial statements, governmental funds report reservation of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1 – Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, “Liabilities, including bonds and other debt instruments, are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$7,945,035 difference are as follows:

Bonds Payable	\$	4,360,000
Less: Deferred charge on refunding (to be amortized as interest expense)		(46,393)
Less: Deferred charge for issuance costs (to be amortized over life of debt)		(35,418)
Plus: Issuance premium (to be amortized as interest expense)		16,413
Accrued interest payable		14,732
Compensated absences		657,211
Other Notes Payable		<u>2,978,490</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>7,945,035</u>

Another element of that reconciliation states, “Other assets are not available to pay for current-period expenditures and therefore deferred in the funds.” The details of this \$825,802 difference are as follows:

Measureable but not yet available:		
Property Taxes	\$	408,428
Municipal Court Fines	\$	357,253
Investment Interest		<u>60,121</u>
Net adjustment to increase <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	\$	<u>825,802</u>

2 – Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as reported as depreciation expense.” The details of this \$450,622 difference are as follows:

Capital Outlay	\$	969,497
Depreciation Expense		<u>(518,875)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>450,622</u>

Another element of that reconciliation states, “Bond proceeds and other debt instruments provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repaying of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.” The details of this \$1,094,913 difference are as follows:

<u>Debt issued or incurred:</u>		
Issuance of general obligation refunding debt	\$	-
Increase in other notes payable		73,315
<u>Principal repayments:</u>		
Scheduled general obligation payments		(617,000)
Called general obligation debt		-
Payment on other notes payable		(551,227)
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>		
	\$	<u>(1,094,913)</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1 - Budgetary Information

The city budgets its funds in accordance with the Revised Code of Washington (RCW 35A.33). In compliance with the Code, budgets for all funds are established with the exception of the fiduciary funds. Budgets established for proprietary funds are “management budgets”.

The annual budget is proposed by the Mayor and adopted by the City Council with legal budgetary control at the fund level (i.e., expenditures may not exceed budget appropriations at the fund level). Transfers or revisions within funds are allowed, but supplemental or additional appropriations must be approved by the City Council. All appropriations lapse at year-end. Unexpended resources must be re-appropriated in the subsequent year. The budgetary basis used in the city is substantially the same as the basis of accounting for the governmental fund types.

Washington State law establishes the budget process and the time limits under which a budget must be developed. The city follows the procedures outlined below to establish its annual budget. The budget schedule, listing more specific dates for completing the following items is established in June.

- Department directors provide the City Administrator and Mayor with preliminary estimates of revenues and expenditures by September 1.
- The Mayor’s preliminary budget is filed with the City Clerk on or before November 1.
- The City Council will fix by ordinance the amounts to be raised in property taxes on or before the first week of November.
- During the first two weeks of November, the City Clerk publishes notice of the filing of the preliminary budget and publishes notice of public hearings.
- During November and before the public hearing, the City Council meets in a work session to review the preliminary budget. These meetings are open to the public.
- On or before the first Monday of December, final public hearings are commenced and may be continued to no later than the 25th day of December prior to the next fiscal year.

- On or before December 31, the City Council adopts the final budget ordinance. The city Clerk publishes a notice indicating budget adoption has been completed.
- The final budget document is published, distributed, and made available to the public during the first three months of the following year.

Supplementary information is presented later in this report for the general fund and all major special revenue funds that illustrate budgetary information for the year.

2 – Excess of Expenditures over Appropriations and Deficits of Fund Equity

- No funds exceeded the appropriations adopted in the budget.
- No funds report a deficit fund balance as of December 31.
- There have been no material violations of finance-related, legal or contractual provisions.

NOTE 4 – DETAILED NOTES RELATING TO ALL FUNDS

1 – Deposits and Investments

The investment policies of the City are described in Note 1 – D-1 Deposits and Investments. As required by state law and the city's investment policy, all deposits and investments of the city funds consist of obligations of the U.S. Government, state or local governments, federal government sponsored corporations, the Washington State Treasurer's Investment Pool, banker's acceptances, and investment deposits.

Deposits

The city deposits and certificates of deposit are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Investments

GASB Statement 3 requires risk classification for all City deposits and investments. All deposits and investments held by the City of Tumwater are classified as risk category #1, which means all funds were either insured, held by the City or the City's agent, or registered in the City's name.

Deposits and Investments December 31, 2004		
		<u>Market Value</u>
U.S. Government Securities	\$	15,535,518
State and Local Government Securities		-
TOTAL	\$	15,535,518
State Investment Pool	\$	9,510,866
Other Invested Funds		4,243,656
TOTAL INVESTMENTS	\$	<u>29,290,040</u>

2 – Property Taxes

The county treasurer acts as an agent to collect property taxes levied in Thurston County for all taxing authorities.

The property tax calendar is as follows:

- January 1 - Property taxes are levied on property values assessed as of the same date and become an enforceable lien against properties.
- February 14 – Tax bills are mailed.
- April 30 - The first of two equal installments is due.
- May 31 – Assessed value of property is established for next year's levy at 100% of market price.
- October 31 – The second installment is due.

Property taxes are recorded as a receivable and revenue when levied. Property taxes collected in advance of the fiscal year to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. No allowance for uncollectible taxes is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principle, and delinquent taxes are evaluated annually.

The City is permitted by law to levy up to \$3.10 per \$1,000 of assessed valuation for general governmental services. This amount may be reduced for any of the following reasons:

- The Washington State constitution limits the total regular property taxes to one percent of assessed valuation or \$10 per \$1,000 of value.
- If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the one percent limit.
- In 2001, a referendum was approved which limits the increase in general property taxes to 1 % above the prior year's assessment.
- The City may voluntarily levy taxes below the limits approved by referendum(s).
- Special levies approved by the voters are not subject to the above limitations.

For 2004, the council adopted a budget that included a regular property tax increase of 1.00%. The City's regular tax levy was \$2.5749 per \$1,000 on a total assessed Valuation of \$1,163,331,973 for a total regular levy of \$3,003,227. Additionally, special levies for General Obligation Bonds totaled \$809,490.

3 – Capital Assets

Capital asset activity for the year ended December 31, 2004 was as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>Capital Assets not being Depreciated:</u>				
Joint Venture	\$ 82,109	\$ 4,017	\$ -	\$ 86,126
Historic Artifacts	96,506	-	-	96,506
Land and Improvements	3,813,331	-	-	3,813,331
Work in Progress	1,506,324	114,802	(279,723)	1,341,403
Total Capital Assets not being Depreciated	\$ 5,498,270	\$ 118,819	\$ (279,723)	\$ 5,337,366
<u>Other Capital Assets:</u>				
Buildings	\$ 10,217,709	\$ -	\$ (33,900)	\$ 10,183,809
Improvements	2,521,153	\$ 279,723	\$ -	2,800,876
Machinery and Equipment	5,676,782	\$ 331,641	\$ (159,754)	5,848,669
Roadways	872,581	\$ 854,694	\$ -	1,727,275
Total Other Capital Assets at Historical Cost	\$ 19,288,225	\$ 1,466,058	\$ (193,654)	\$ 20,560,629
<u>Less Accumulated Depreciation</u>				
Buildings	\$ (2,950,961)	\$ (340,138)	\$ 32,883	\$ (3,258,216)
Improvements	(732,128)	(74,155)	-	(806,283)
Machinery and Equipment	(2,812,972)	(513,503)	131,609	(3,194,867)
Roadways	-	-	-	-
Total Accumulated Depreciation	\$ (6,496,062)	\$ (927,797)	\$ 164,492	\$ (7,259,367)
Other Capital Assets, Net of Depreciation	\$ 12,792,164	\$ 538,261	\$ (29,163)	\$ 13,301,263
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	18,290,433	657,080	(308,886)	18,638,628

Depreciation was charged to functions as follows:

Governmental Activities

General Government	\$ 102,216
Public Safety - Police	30,302
Public Safety - Fire	174,753
Public Works	15,758
Economic Environment	9,280
Culture & History	71,232
Parks & Recreation	115,333

In addition, depreciation on capital assets held by an internal service fund is charge to various functions based on their usage of the assets owned by the fund.

408,922

TOTAL GOVERNMENTAL ACTIVITIES DEPRECIATION EXPENSE	\$ 927,797
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<u>BUSINESS-TYPE ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>Capital Assets not being Depreciated:</u>				
Land and Improvements	\$ 346,388	\$ -	\$ -	\$ 346,388
Construction in Process	4,408,168	934,502	(1,748,319)	3,594,352
Total Capital Assets not being Depreciated	\$ 4,754,556	\$ 934,502	\$ (1,748,319)	\$ 3,940,739
<u>Other Capital Assets:</u>				
Buildings	\$ 951,606	\$ -	\$ -	\$ 951,606
Improvements	3,352,813	-	-	3,352,813
Machinery and Equipment	2,258,552	77,995	(36,504)	2,300,043
Utility Systems	31,346,666	3,878,347	(75,002)	35,150,010
Total Other Capital Assets at Historical Cost	\$ 37,909,637	\$ 3,956,341	\$ (111,507)	\$ 41,754,472
<u>Less Accumulated Depreciation</u>				
Buildings	\$ (289,306)	\$ (33,852)	\$ -	\$ (323,158)
Improvements	(400,721)	(117,698)	-	(518,419)
Machinery and Equipment	(1,219,634)	(209,040)	29,885	(1,398,789)
Utility Systems	(7,034,061)	(854,221)	75,002	(7,813,280)
Total Accumulated Depreciation	\$ (8,943,722)	\$ (1,214,812)	\$ 104,887	\$ (10,053,647)
Other Capital Assets, Net of Depreciation	\$ 28,965,914	\$ 2,741,530	\$ (6,619)	\$ 31,700,825
NET BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS	33,720,471	3,676,032	(1,754,938)	\$ 35,641,564

Depreciation was charged to functions as follows:

Business-Type Activities

Water	\$ 464,965
Sewer	298,331
Storm Drain	120,446
Golf Course	232,490

In addition, depreciation on capital assets held by an internal service fund is charge to various functions based on their usage of the assets owned by the fund. 98,580

TOTAL BUSINESS-TYPE ACTIVITIES DEPRECIATION EXPENSE	\$ 1,214,812
--	---------------------

4 – Construction Commitments

The city has active construction projects in progress as of December 31, 2004. The project listing below represents the *major* projects underway. There are a number of smaller projects with costs accumulating from city staff project planning and review time as well as professional services and construction contracts:

<u>PROJECT NAME</u>	<u>SPENT TO DATE</u>	<u>ESTIMATED REMAINING COMMITMENT</u>
Boston Bridge Restoration	\$ 544,389	\$ 50,000
Littlerock Road Improvements	468,606	4,142,000
Turnwater Boulevard Widening	407,215	4,075,000
Boston Bridge Sewer & Southern Connection	170,385	1,194,310
Littlerock-Israel to Glenwood Sewer	2,691	237,300
Total	\$ 1,593,286	\$ 9,698,610

5 – Interfund Receivables, Payables, Loans, Transfers

Loans

An interfund loan from the combined utility funds to the golf course fund has been authorized by city ordinance. During the year, a total of \$119,764 in draws was made and \$194,510 was repaid. The principal balance at the end of the year is \$741,101 with an authorized maximum of \$1,000,000. This loan has allowed for the completion of two major projects, replacement of the irrigation system and paved golf cart paths, as well a short term cash flow needs for course operation.

Transfers

Although this exhibit shows a transfer-in to the Internal Service Fund in the amount of \$160,661, it appears in the fund as revenue. This represents a transfer of cash for the purpose of purchasing assets. Similarly with the transfer-in to the General Fund and Capital Projects Fund totaling \$374,763 and to the Internal Service Fund for \$21,619 from the Utilities Fund. These amounts are the total of utility tax collected by the Utilities Fund that is recorded as revenue when billed and expense when transferred to the governmental funds as transfers-in, and the amount recorded as operating expenses transferred to the Internal Service Fund for the purchase of assets.

The Nonmajor Governmental Funds transfer in of \$931,975 was from General Fund to the Debt Service fund for future payment to be issued on debt to a private party for infrastructure improvements (see Note 4 – 6-Debt, Development Notes), and \$112,705 from the Development Fees Fund to the Debt Service Fund. This amount represents fire impact fees collected to be used for payment of General Obligation bonds for excess capacity constructed in the Fire Department headquarters building.

The Golf Course Fund transfer-in from the Capital Projects Fund was authorized as a component of the capital facilities plan and is for payment of debt service.

	Transfers In					
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Golf Course Fund	Internal Service Fund	Total
<u>Transfers Out:</u>						
General Fund	\$ 12,000		\$ 931,975		\$ 7,605	\$ 951,580
Development Fees Fund			112,705			\$ 112,705
Capital Projects Fund			35,000	319,610	131,438	\$ 486,048
Nonmajor Governmental Funds						\$ -
Utilities Fund	187,382	187,381			21,619	\$ 396,382
Golf Course Fund						\$ -
Total Transfers Out	\$ 199,382	\$ 187,381	\$ 1,079,680	\$ 319,610	\$ 160,661	\$ 1,946,715

6 – Debt

Short Term Debt

The city has not utilized anticipation notes, lines of credit, or similar short-term borrowing instruments during the reporting period.

Leases

The city has entered into lease agreements for financing the acquisition of golf carts and golf course maintenance equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payment as of the inception of the leases.

The assets acquired through capital leases and the lease obligations as of December 31, 2004 were as follows:

OUTSTANDING CAPITAL LEASES			
Purpose	Interest Rate	Amount	
Golf Course Maintenance Equipment	5.845%	\$	9,906
Golf Course Maintenance Equipment	2.957%		194,693
Golf Carts	5.579%		81,877

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY			
Year Ending December 31	Principal	Interest	
2005	78,832	9,660	
2006	71,593	6,750	
2007	74,375	3,968	
2008	61,675	1,282	
TOTAL \$	286,476	\$	21,660

Development Notes

The city has entered into agreements with two major retail developers to provide the funding necessary to assure that the infrastructure would be in place concurrent with construction of the retail facilities in the area. The agreements allowed the developers to pay for the cost of construction so they could proceed with the planned retail center. As of December 31, 2004, the balance owed to one developer is \$1,973,161 with the final payment scheduled for December 31, 2006, and the second developer's balance is \$1,005,329. The second developer's balance reflects an increase in the liability of \$73,314 for developments costs incurred to modify a privately owned facility to allow for widening of a street. The cost is considered a non-capital related debt since no value is added to the infrastructure owned by the city. The annual payment of both agreements is estimated to be \$100,000 per year.

Long Term Debt

The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. In past years, general obligation bonds have been issued for both governmental and business-type activities.

General obligation bonds currently outstanding are as follows:

OUTSTANDING GENERAL OBLIGATION BONDS		
Purpose	Interest Rate	Amount
City Hall Construction	3.270%	\$ 810,000
Golf Course Acquisition and Upgrade	5.090%	4,375,000
Library Construction	4.397%	965,000
Fire Headquarters and Trucks	4.556%	2,585,000

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR GENERAL OBLIGATION BONDS				
Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2005	635,000	172,250	-	219,610
2006	660,000	151,306	130,000	216,685
2007	260,000	134,153	140,000	210,610
2008	280,000	123,493	145,000	204,016
2009	290,000	111,873	150,000	197,010
2010 - 2014	1,335,000	369,973	885,000	864,296
2015 - 2019	900,000	107,720	1,130,000	617,519
2020 - 2024	-	-	1,460,000	285,686
2025	-	-	335,000	8,710
TOTAL	\$ 4,360,000	\$ 1,170,766	\$ 4,375,000	\$ 2,824,143

The city also issued bonds where the city pledges a portion of income derived from the Utility Fund to pay debt service.

Revenue bonds currently outstanding are as follows:

OUTSTANDING REVENUE BONDS		
Purpose	Interest Rate	Amount
Combined Utility Projects	5.056%	\$ 150,000
Combined Utility Projects	2.949%	3,885,000

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY FOR REVENUE BONDS		
Year Ending December 31	Principal	Interest
2005	350,000	121,106
2006	365,000	107,456
2007	375,000	96,506
2008	390,000	85,256
2009	400,000	75,506
2010 - 2014	1,925,000	202,431
2015	230,000	7,475
TOTAL	\$ 4,035,000	\$ 695,738

The city also borrowed funds from the State of Washington Public Works Board. Public works trust fund loans are available to selected local governments for the repair, replacement, reconstruction, rehabilitation, or improvements of bridges, roads, domestic water systems, sanitary sewer, and storm systems. This junior lien of the city Utility Fund is paid from the revenue generated from operations.

Public Works Trust Fund loans currently outstanding are as follows:

OUTSTANDING PUBLIC WORKS TRUST FUND LOANS		
Purpose	Interest Rate	Amount
Combined Utility Projects	1.00%	\$ 918,566
Combined Utility Projects	3.00%	436,268

ANNUAL DEBT SERVICE REQUIREMENTS TO MATURITY		
Year Ending December 31	Principal	Interest
2005	154,672	22,274
2006	154,672	19,273
2007	154,672	16,272
2008	154,672	13,271
2009	154,672	10,270
2010 - 2014	402,556	20,027
2015 - 2018	178,919	4,473
TOTAL \$	1,354,834	\$ 105,859

Changes in Long-term Liabilities

Long-term liability activity for the year ended December 31 was as follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Bonds and Notes Payable					
General Obligation Bonds	\$ 4,977,000	\$ -	\$ (617,000)	\$ 4,360,000	\$ 635,000
Infrastructure Development Notes	3,456,404	73,314	(551,227)	2,978,490	200,000
	<u>\$ 8,433,404</u>	<u>\$ 73,314</u>	<u>\$ (1,168,227)</u>	<u>\$ 7,338,490</u>	<u>\$ 835,000</u>
Plus Premiums / Less Discounts	17,592	-	(1,179)	16,413	
Less Deferred Amount on Refundings	(90,155)	-	8,344	(81,811)	
Total Bonds and Notes Payable	<u>\$ 8,360,841</u>	<u>\$ 73,314</u>	<u>\$ (1,161,063)</u>	<u>\$ 7,273,092</u>	<u>\$ 835,000</u>
Other Liabilities					
Compensated Leave	\$ 638,551	\$ 34,679	\$ -	\$ 673,230	\$ -
GOVERNMENTAL ACTIVITIES LONG-TERM LIABILITIES	<u>\$ 8,999,391</u>	<u>\$ 107,993</u>	<u>\$ (1,161,063)</u>	<u>\$ 7,946,322</u>	<u>\$ 835,000</u>

<u>BUSINESS-TYPE ACTIVITIES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNTS DUE WITHIN ONE YEAR</u>
Bonds and Notes Payable					
General Obligation Bonds (Golf Course Fund)	\$ 4,375,000	\$ -	\$ -	\$ 4,375,000	\$ -
Revenue Bonds (Utilities Fund)	4,375,000	-	(340,000)	4,035,000	350,000
Public Works Trust Fund Loans (Utilities Fund)	1,563,224		(208,390)	1,354,834	154,672
	<u>\$ 10,313,224</u>	<u>\$ -</u>	<u>\$ (548,390)</u>	<u>\$ 9,764,834</u>	<u>\$ 504,672</u>
Plus Premiums	8,658	-	(323)	8,335	
Less Discounts	(8,571)		400	(8,171)	
Less Deferred Amount on Refundings	(487,895)	-	37,673	(450,222)	
Total Bonds and Notes Payable	<u>\$ 9,825,416</u>	<u>\$ -</u>	<u>\$ (510,639)</u>	<u>\$ 9,314,777</u>	<u>\$ 504,672</u>
Other Liabilities					
Capital Leases (Golf Course Fund)	\$ 365,609	\$ -	\$ (79,133)	\$ 286,476	\$ 78,832
Compensate Leave	114,640	1,616	-	116,256	-
Total Other Liabilities	<u>\$ 480,249</u>	<u>\$ 1,616</u>	<u>\$ (79,133)</u>	<u>\$ 402,732</u>	<u>\$ 78,832</u>
BUSINESS-TYPE ACTIVITIES LONG-TERM LIABILITIES	<u>\$ 10,305,665</u>	<u>\$ 1,616</u>	<u>\$ (589,772)</u>	<u>\$ 9,717,509</u>	<u>\$ 583,504</u>

The city's internal service fund serves both governmental funds and enterprise funds. Accordingly, liabilities for the Equipment Rental and Reserve fund are included as part of the totals for both governmental and business-type activities in the government-wide statements. At the end of the year, the compensated leave balance is \$19,786 and is allocated to the activity types based on the percentage of utilization of the fund. The entire balance is considered as a non-current liability.

7 – Joint Venture

The City holds an ongoing equity interest in the local Animal Control Commission along with the City of Olympia, City of Lacey, and Thurston County. The agreement, between the parties defines the equity interest based on the percentage of contributions made by all entities. The City of Tumwater holds a 6% interest as of December 31, which equates to a value of \$86,126 (an increase of \$4,017 from the prior year). The financial statements for the Commission are included in the annual financial report of the City of Lacey.

8 – Other Post-employment Benefits

In addition to the pension benefits described in #9 (below), the City of Tumwater provides post-employment health care benefits, in accordance with Title 41 RCW to two active LEOFF I employees. Currently, 15 retirees also meet those eligibility requirements.

The City reimburses 100% of the amount of validated claims for medical and hospitalization costs incurred by active and retired LEOFF I employees. The City also reimburses a fixed amount of \$66.60 per month for a Medicare supplement (Part B) for each retiree eligible for Medicare.

Employer contributions are financed on pay-as-you-go basis. Expenditures for post-employment health care benefits are recognized as active employees and retirees report claims.

During the year, expenditures of \$167,222 were recognized for LEOFF 1 active and retired employees.

9 – Pension Plans

Substantially all full-time and qualifying part-time employees of the city participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98504-8380

The following disclosures are made pursuant to GASB Statement 27, *Accounting for Pensions by State and Local Government Employers*.

Public Employees Retirement System (PERS) Plans 1, 2, and 3

Plan Description

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education

employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

There are 1,168 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	65,362
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	20,001
Active Plan Members Vested	100,469
Active Plan Members Nonvested	54,081
TOTAL	239,913

Funding Policy

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and 7.5 percent for state government elected officers. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used

to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	<u>PERS 1</u>	<u>PERS 2</u>	<u>PERS 3</u>
Employer*	1.38%	1.38%	1.38%
Employee	6.00%	1.18%	***

* The employer rates include the employer administrative expense fee currently set at 0.19%.

** Plan III defined benefit portion only.

*** Variable from 5% to 15% maximum based on rated selected by PERS III member.

Both the City of Tumwater and the employees made the required contributions. The City's required contributions for the years ended December 31 were:

	<u>PERS 1</u>	<u>PERS 2</u>	<u>PERS 3</u>
2004	\$ 9,261	\$ 61,620	\$ 10,537
2003	\$ 10,042	\$ 59,448	\$ 8,020
2002	\$ 10,038	\$ 55,402	\$ 211

Law Enforcement Officers and Fire Fighter's Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees, with the exception of the Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. Effective January 1, 2003 firefighter emergency medical technicians (EMTs) may transfer PERS Plan 1 or Plan 2 service credit to LEOFF Plan 2 if while employed for the city, town, county or district, the EMT's job was relocated to a fire department from another city, town, county or district. LEOFF defined benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

<u>Term of Service (Years)</u>	<u>Percent of Final Average</u>
20+	2.0%
10-20	1.5%
5-10	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent

of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the highest consecutive 60 months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

There are 368 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	8,370
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	453
Active Plan Members Vested	11,548
Active Plan Members Nonvested	4,003
TOTAL	24,374

Funding Policy

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with Chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2004, were as follows:

	<u>LEOFF 1</u>	<u>LEOFF 2</u>
Employer*	0.19%	3.25%
Employee	0.00%	5.09%
State	N/A	2.03%

* The employer rates include the employer administrative expense fee currently set at 0.22%.

** The employer rate for ports and universities is 5.27%

Both the City of Tumwater and the employees made the required contributions. The City of Tumwater's required contributions for the years ended December 31 were:

	<u>LEOFF 1</u>	<u>LEOFF 2</u>
2004	\$ 290	\$ 100,671
2003	\$ 379	\$ 94,130
2002	\$ 652	\$ 77,385

10 – Contingencies and Litigation

As of December 31, a number of claims were pending against the City for damages and legal actions with either monetary claims or issues that could affect the City financially. While the outcome of these actions is uncertain, no losses are clearly anticipated at this time. Any potential adverse judgments against the City would be subject to coverage under the City's comprehensive liability, which includes public official's errors and omissions insurance.

11 – Risk Management

The city is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 110 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$3 million per occurrence self insured layer, and \$11 million per occurrence in the re-insured excess layer with no annual aggregate except \$10 million per member for public officials errors and omissions. The excess layer is insured by the purchase of reinsurance and insurance. Total limits are \$14 million per occurrence. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$500,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of reinsurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines. These revenues directly offset portions of the membership's annual assessment.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

12 – Change in an Accounting Principle

A change in reporting to account for outstanding receivable for municipal court fines (net of uncollectible accounts) is reported in 2004 in accordance with GASB Statements 34, and the ending balance of \$201,001 as of December 31, 2003 is displayed on the Statement of Activities.

CITY OF TUMWATER

GENERAL FUND - Budget and Actual

Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2004

	BEGINNING BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 8,867,692	\$ 8,849,939	\$ 9,102,776
Licenses & Permits	451,500	476,500	858,598
Intergovernmental	1,024,974	1,024,974	1,130,192
Charges for Services	993,458	1,062,647	1,543,978
Fines & Forfeitures	194,748	194,748	181,229
Miscellaneous	119,700	119,700	153,995
TOTAL REVENUES	\$ 11,652,072	\$ 11,728,508	\$ 12,970,768
<u>EXPENDITURES</u>			
<u>Current:</u>			
General Government	\$ 3,034,597	\$ 3,213,126	\$ 3,171,741
Security of Persons & Property	5,647,742	5,641,007	5,541,651
Physical Environment	178,044	213,044	196,872
Transportation	962,533	980,033	940,185
Economic Environment	1,308,268	1,376,462	1,352,571
Mental & Physical Health	33,750	33,750	33,741
Culture & Recreation	802,164	833,105	796,062
Capital Outlay	3,000	9,374	-
TOTAL EXPENDITURES	\$ 11,970,098	\$ 12,299,901	\$ 12,032,823
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (318,026)	\$ (571,393)	\$ 937,945
<u>OTHER FINANCING SOURCES (USES)</u>			
Sale of Fixed Assets	\$ 2,500	\$ 2,500	\$ -
Transfers In	166,500	166,500	199,382
Transfers Out	(412,000)	(1,012,000)	(943,975)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (243,000)	\$ (843,000)	\$ (744,593)
NET CHANGE IN FUND BALANCES	\$ (561,026)	\$ (1,414,393)	\$ 193,352
PLUS: FUND BALANCES - BEGINNING	\$ 1,936,335	\$ 1,934,899	\$ 1,953,830
FUND BALANCES - ENDING	\$ 1,375,309	\$ 520,506	\$ 2,147,182

CITY OF TUMWATER

DEVELOPMENT FEES Special Revenue Fund - Budget and Actual Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2004

	BEGINNING BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ -	\$ -	-
Licenses & Permits			-
Intergovernmental			-
Charges for Services	1,135,000	1,135,000	2,601,123
Fines & Forfeitures			-
Miscellaneous	75,000	75,000	56,696
TOTAL REVENUES	\$ 1,210,000	\$ 1,210,000	\$ 2,657,819
<u>EXPENDITURES</u>			
<u>Current:</u>			
General Government	\$ -	\$ -	-
Transportation			
Culture & Recreation			
Capital Outlay			
TOTAL EXPENDITURES	\$ -	\$ -	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 1,210,000	\$ 1,210,000	\$ 2,657,819
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In			-
Transfers Out	(2,305,815)	(2,305,815)	(112,705)
TOTAL OTHER FINANCING SOURCES (USES)	\$ (2,305,815)	\$ (2,305,815)	\$ (112,705)
NET CHANGE IN FUND BALANCES	\$ (1,095,815)	\$ (1,095,815)	\$ 2,545,114
PLUS: FUND BALANCES - BEGINNING	\$ 4,172,318	\$ 4,172,318	\$ 4,169,291
FUND BALANCES - ENDING	\$ 3,076,503	\$ 3,076,503	\$ 6,714,405

CITY OF TUMWATER

CAPITAL PROJECTS FUND - Budget and Actual Statement of Revenues, Expenditures, and Changes in Fund Balance For the Year Ended December 31, 2004

	BEGINNING BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Taxes	\$ 1,368,851	\$ 1,461,909	\$ 1,478,191
Licenses & Permits	-	-	-
Intergovernmental	2,506,946	2,506,946	256,482
Charges for Services	-	-	-
Fines & Forfeitures	-	-	-
Miscellaneous	61,194	61,194	37,494
TOTAL REVENUES	\$ 3,936,991	\$ 4,030,049	\$ 1,772,167
<u>EXPENDITURES</u>			
<u>Current:</u>			
General Government	\$ -	\$ -	\$ -
Security of Persons & Property	-	-	-
Physical Environment	-	-	-
Transportation	-	-	-
Economic Environment	-	-	-
Mental & Physical Health	-	-	-
Culture & Recreation	-	-	-
Capital Outlay	6,450,076	6,482,984	969,496
TOTAL EXPENDITURES	\$ 6,450,076	\$ 6,482,984	\$ 969,496
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (2,513,085)	\$ (2,452,935)	\$ 802,671
<u>OTHER FINANCING SOURCES (USES)</u>			
Non-Capital Related Debt Issued	\$ -	\$ -	\$ 73,313
Transfers In	2,543,001	2,543,001	187,382
Transfers Out	(510,610)	(510,610)	(486,048)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 2,032,391	\$ 2,032,391	\$ (225,353)
NET CHANGE IN FUND BALANCES	\$ (480,694)	\$ (420,544)	\$ 577,318
PLUS: FUND BALANCES - BEGINNING	\$ 1,846,828	\$ 2,820,643	\$ 3,183,041
FUND BALANCES - ENDING	\$ 1,366,134	\$ 2,400,099	\$ 3,760,359